Testimony of

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On behalf of the

Independent Community Bankers of America

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Subcommittee on Financial Institutions and Consumer Credit

Hearing on

"Examining Proposals for a More Efficient Federal Financial Regulatory Regime: Part III"

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Opening

Chairman Luetkemeyer, Ranking Member Clay, and members of the Subcommittee, I am Robert Fisher, President and Chief Executive Officer of Tioga State Bank, a $475 million community bank in Spencer, New York. I am pleased to be here today on behalf of the Independent Community Bankers of America and the more than 5,700 community banks we represent. Thank you for convening this hearing titled: "Examining Proposals for a More Efficient Federal Financial Regulatory Regime: Part III." We hope that this hearing sets the stage for legislation needed to strengthen local economic growth and job creation.

Tioga State Bank has deep roots in the communities of Tioga County and surrounding counties in upstate New York. Founded by my great-great grandfather in 1884 to provide much-needed banking services to local businesses and individuals, Tioga State Bank has weathered the Great Depression and numerous recessions since that time. I am a fifth-generation community banker, proud to carry on our commitment to local prosperity. Today, we have 11 offices and approximately $475 million in assets. We specialize in consumer mortgage and small business lending. Our footprint is largely rural, but we also have offices in the urban and suburban communities of Binghamton. Many of the communities we serve depend on us as the only financial institution with a local presence. These smaller communities are simply not on the radar of the megabanks or larger regional financial institutions. Without the presence of community banks, many of these communities would become stranded in financial services deserts.

Like thousands of other community banks across the country, Tioga State Bank provides services than cannot be duplicated by banks that operate from outside the community. The credit and other financial services community banks provide help advance and sustain the economic recovery. Community banks are responsible for more than 50 percent of all small business loans nationwide under $1 million. In New York state, community banks hold just 22 percent of total banking assets but make 55 percent of small business loans and 90 percent of small farm loans. Community banks "punch above their weight," well above, in these critical forms of lending. As the economic recovery strengthens, small businesses will lead the way in job creation with the help of community bank credit.

The role of community banks in advancing and sustaining the recovery is jeopardized by the increasing expense and distraction of regulation drastically out of proportion to any risk we pose. Community banks didn't cause the financial crisis, and we should not bear the weight of overreaching regulation intended to address it.

ICBA is strongly encouraged by recent, bipartisan momentum for community bank regulatory relief from both sides of the Capitol, and we are optimistic that meaningful relief will soon be signed into law. I would like to thank this committee for passing a number of important regulatory relief bills this Congress, including the Financial CHOICE Act (H.R. 10) and numerous other important bills, many of which reflect ICBA's Plan for Prosperity. We strongly encourage this committee to build on your

strong record of regulatory relief by advancing legislation I will discuss today. The work of this committee has spurred action on the Senate side and will soon bear fruit.

Proposed Legislation

I will focus my testimony on three bills before this committee that are of particular interest to community bankers: the "Community Financial Institution Exemption Act" (H.R. 1264), the "Home Mortgage Reporting Relief Act of 2017" (H.R. 4648), and the "Community Bank Reporting Relief Act" (H.R. 4725).

The common theme of these bills is suffocating regulation whether it's in the form of prescriptive rules that unnecessarily escalates the cost of credit, or highly granular and costly reporting requirements which provide vastly more data than regulators need for bank supervision.

Community Financial Institution Exemption Act (H.R. 1264)

H.R. 1264, introduced by Rep. Roger Williams, would exempt community banks with assets of less than $50 billion from all prospective rules and regulations issued by the Consumer Financial Protection Bureau (CFPB). The bill would give the CFPB authority to apply a specific rule or regulation to otherwise exempt institutions if it makes a written finding that such institutions have engaged in a pattern or practice of activities that are harmful to consumers and that are targeted by the specific rule. Finally, H.R. 1264 would preserve the CFPB's authority to modify previously issued rules and regulations to expand exemptions or reduce compliance burden.

Since the creation of the CFPB, community banks have been forced to comply with arbitrary, rigid, and prescriptive rules intended to target the bad behavior of larger financial services providers. Community banks were in no way responsible for the financial crisis of 2008, nor do they have any history of abusive consumer practices. Community banks thrive or fail based on their reputation for fair dealing in the communities they serve. Their business model is based on long-term customer relationships, not one-off transactions. Rules that fail to account for this business model limit community banks' ability to rely on their best judgment in making credit decisions and to offer customized products and services. Such rules reduce consumer choice and end up hurting the very customers they are intended to protect.

H.R. 4648, introduced by Representatives Tom Emmer and Randy Hultgren, would provide temporary enforcement relief from the new, complex, and burdensome data collection and reporting requirements under the Home Mortgage Disclosure Act (HMDA). Expeditious consideration of H.R. 4648 is needed as the new HMDA rule became effective on January 1. Without the relief provided by this bill, the new HMDA requirements may cause widespread confusion and unintentional error and potentially disrupt new mortgage credit.

The CFPB's HMDA rule more than doubles the number of required data fields from 23 to 48. Collection of the new data points began on January 1, 2018, but many lenders, core vendors and mortgage software vendors continue to scramble to prepare their systems. Data reporting begins in 2019. The compliance challenge before community banks today is much like the implementation of the new TRID rule, which the CFPB wisely delayed as the original implementation date approached and lenders' unpreparedness became obvious. H.R. 4648 provides that compliance with the new HMDA data collection requirement prior to January 1, 2019, or the reporting requirement prior to January 1, 2020, may not serve as the basis of a supervisory or enforcement action against any depository institution. The bill further provides that no suit may be filed against any depository institution for any violation before such dates. This is consistent with Treasury's recommended delay of the new HMDA rule, set forth in its June 2017 report.

H.R. 4648 would also restrict the CFPB's ability to make any of the new data publicly available. One of our strongest objections to the new HMDA rule is that the publication of detailed, sensitive borrower-specific financial information could easily be used in combination with data available through the county clerk and other sources to identify loan applicants and compromise their privacy, not only in rural communities. H.R. 4648 will effectively address this concern.

We believe the ultimate solution is a HMDA exemption for relatively low volume mortgage lenders, as provided in Rep. Emmer's earlier bill, H.R. 2954. Banks are incurring significant expense in the collection and reporting of data under the new HMDA, yet this data will provide little incremental benefit or insight over what is currently reported. Community banks report only a fraction of the nearly 10 million annual mortgage applications reported through HMDA last year. We believe H.R. 2954 would provide needed relief without significantly impacting the mortgage data available to the CFPB or impairing the purpose of the HMDA statute.

As a community bank mortgage lender, I can affirm that HMDA reform is a high priority and would free up significant staff time and resources to better focus on serving customers.

Community Bank Reporting Relief Act (H.R. 4725)

H.R. 4725, introduced by Rep. Hultgren, would require the federal banking agencies to issue regulations to allow for reduced call reporting in the first and third quarters for banks with assets of less than $5 billion. The bill would also give the agencies discretion to establish additional criteria to qualify for this reduced reporting.

The quarterly call report filed by community banks such as mine, with assets of less than $1 billion, now comprises 51 pages of forms. For banks above $1 billion in assets, the report is 80 pages long. When I first started in banking in the mid-1980s, the report was 18 pages long. No change in our basic business model since that time warrants the sharp growth in our quarterly reporting obligation. Call report preparation involves drawing data from multiple reports generated by different systems and reentering data into the call report software. It is a manual and labor intensive process. The most burdensome schedule for us is the Regulatory Capital schedule, which went from 9 to 21 pages following Basel III. For a bank with a relatively simple capital structure, the complexity of this schedule is unwarranted. We draw data from two separate vendors to determine the risk weights of a number of our securities. The numbers never seem to agree and reconciling them all is a significant challenge. We spend a full week each quarter on average, or 40 to 50 manhours, completing the call report. This is a significant expenditure of staff resources that would otherwise be directed to serving customers.

The most frustrating aspect of this quarterly exercise is that only a fraction of the information collected in the call report is actually useful to regulators for monitoring safety and soundness or conducting monetary policy. We provide extremely granular data such as the quarterly change in loan balances on owner-occupied commercial real estate. Whatever negligible value there is for the regulators in obtaining this type of detail is dwarfed by the expense and the staff hours dedicated to collecting it. To put things in perspective, consider this contrast: some multi-billion dollar credit unions, with a significantly more complex business model than my community bank, file a less than-30-page call report. Surely, regulators can supervise community banks with significantly less paperwork burden than they currently demand.

The recent efforts by the Federal Financial Institution Examination Council (FFIEC) to streamline the call reporting process for community banks are of little to no value. FFIEC eliminated data that were not applicable to Tioga and other community banks, such as derivatives data. From our perspective, the new "short" form is essentially the same as the long form. ICBA invested significant time and resources in the FFIEC effort and we were deeply disappointed in the outcome.

This is why ICBA strongly supports H.R. 4725. The short form call report would contain essential data required by regulators to conduct offsite monitoring such as the income statement, balance sheet, and changes in shareholders' equity. A full call report would be filed at mid-year and at year-end. While the $5 billion threshold would provide relief for the large majority of community banks, ICBA believes this relief can be safely extended to community banks with asset up to $10 billion. This higher threshold would reflect ongoing industry consolidation which is pushing up the average asset size of community banks.

Pass S. 2155

ICBA anticipates Senate passage of S. 2155 in the coming months with a strong bipartisan vote. S. 2155 contains robust regulatory relief for community banks, including relief from HMDA reporting, short form call reports, deemed qualified mortgage status for mortgages held in portfolio by community banks, a lengthened exam cycle for banks with less than $3 billion in assets, and numerous other provisions that would strengthen economic growth and job creation.

It is clear that S. 2155 owes a great deal to the work of this committee. The numerous hearings, markups, and House floor votes on community bank regulatory relief in this Congress and recent Congresses have all contributed to the recent work of the Senate Banking Committee. Regulatory relief is a multi-year effort spanning both sides of the Capitol. With this in mind, ICBA urges the members of this committee and the House to seize this opportunity to enact long-awaited regulatory relief for community banks by quickly taking up S. 2155 following Senate passage.

Closing

Thank you again for the opportunity to testify today. We appreciate the role of this subcommittee in putting a check on regulatory overreach and rolling back unwarranted regulation that is reducing credit and promoting industry consolidation. This committee has already passed critical regulatory relief legislation. The bills I've discussed today would build on your previous efforts by addressing critical threats to community banking. We look forward to working with this committee to advance them into law.